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No. 87-1346

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

BONITO BOATS, INC.,
Petitioner,

v.

THUNDER CRAFT BOATS, INC.,
Respondent.

On Writ of Certiorari
To The Supreme Court of Florida

BRIEF OF AMICUS CURIAE INTELLECTUAL PROPERTY OWNERS, INC. IN SUPPORT OF PETITIONER

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INTEREST OF AMICUS CURIAE

Intellectual Property Owners, Inc. (IPO) is a nonprofit association incorporated in the District of Columbia. IPO's members own patents, trademarks, copyrights, trade secrets, and similar legal rights. Its members include large corporations, small businesses, universities and individuals who are responsible for a significant portion of the research and development performed in the United States. They are interested in having effective laws to protect their R&D investments.

Protection for intellectual property is of major importance to the U.S. economy. Royalties and fees received by U.S. industry from international licensing transactions, for example,

are $8.2 billion a year, which is more than six times the amount U.S. industry is paying to foreign firms in royalties and fees. U.S. Department of Commerce, *Survey of Current Business*, Table 10, Mar. 1988.

Piracy and counterfeiting of intellectual property by domestic and foreign competitors is a major problem for U.S. innovators. U.S. firms may be losing as much as $43 to $61 billion per year because of inadequate protection of American intellectual property abroad. U. S. International Trade Commission, Pub. No. 2065, *Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade*, App. H. (1988).

State legislation prohibiting copying by direct molding processes may help deter offshore and domestic copiers. In the Federal Circuit case which is in conflict with the decision below, *Interpart Corp. v. Italia*, 777 F.2d 678 (1985), the articles alleged to have been copied by a direct molding process were imported from Taiwan for sale in California.

Unfair copying and other forms of intellectual property infringement and unfair competition need to be addressed through a variety of measures, including federal legislation, state legislation, multilateral treaties, bilateral treaties, and government-to-government consultations. *See generally* Report of the President's Commission on Industrial Competitiveness, *Global Competition: The New Reality*, vol. II, at 306-51 (1985).

The authority of the states to protect against unfair competition is a matter of importance to IPO and to U.S. industry generally. State legislatures may be more able than the U.S. Congress to recognize acts of unfair competition that discourage innovation in industries important to their states, such as the boat industry in Florida.

IPO respectfully urges that the decision below is inconsistent both with established law and policy. The law and policy of the United States, IPO submits, is to encourage innovation and creativity by providing protection against competitors who seek to take *unfair* advantage of the time, expense, effort and imagination of innovators and creators.

SUMMARY OF ARGUMENT

Protection under the Florida direct molding statute is not the equivalent of patent protection. The objective of the patent laws is to encourage innovation by providing broad but difficult-to-obtain protection for inventions. The Florida direct molding statute encourages innovation through narrow but automatically available protection against a particular form of copying considered to be unfair competition.

Congress has left the subject of direct copying of industrial designs unattended. If Congress enacts federal anti-copying legislation, it can decide whether to preempt direct molding laws in the states.

Protection against copying by direct molding afforded by the Florida statute is similar to protection available under state trade secret laws. This Court has upheld the authority of the states to protect trade secrets.

The kind of copying prohibited by the Florida statute also is similar to the copying outlawed by Congress in 1984 for semiconductor chip products. The Florida statute and the chip statute both prohibit direct, low-cost copying but allow reverse engineering. Congress decided to preempt state laws equivalent to the chip statute, but acknowledged that states possessed authority to protect against chip copying before Congress acted.

THE ARGUMENT

I. Florida's Statute Prohibiting Copying by Using Direct Molding Processes Does Not Clash With the Objectives of the Federal Patent Laws.

The Florida statute, FLA. STAT. § 559.94 (1985), does not provide protection that is even remotely similar to patent protection. With a patent, a boat manufacturer has an unrestricted right to exclude everyone—copiers and noncopiers—from making, from using, and from selling the patented invention. 35 U.S.C. §§ 154 and 271(a).

Patent law has no exemption for reverse engineering. The right to exclude covers modifications of a patented hull under the doctrine of equivalents. Patent protection can be enforced against parties who have no actual knowledge of the existence of patent rights. 35 U.S.C. § 287. The patent owner has a right of action against parties who actively induce infringement of the patent and against those who contribute to infringement of the patent. 35 U.S.C. §§ 271(c) and (d).

By contrast, a boat manufacturer under the Florida statute has only a right of action against one who *duplicates* a vessel hull by a *direct molding process* and against one who sells a vessel hull knowing it was made by such a direct molding process. The Florida statute is available only against deliberate copiers who have made virtually no investment of their own in hull designs.

Under the Florida statute it is irrelevant whether a protected vessel hull qualifies for federal patent protection. Protection under the Florida statute is so different that it cannot be said to be even close to the equivalent of patent protection. The court below held that the Florida statute placed "unauthorized restrictions" on the implementation of the federal patent laws. It is respectfully submitted that such a conclusion is without any basis in law or fact. The federal patent laws and the Florida statute are totally distinct, one from the other, the latter relating only to boat hulls made by a special method of copying; there is no such provision in the federal patent laws.

The objective of the federal patent laws is to encourage innovation by providing broad but difficult-to-obtain protection for all kinds of inventions, including useful or ornamental designs of boats. The Florida statute complements this objective by providing narrow but automatically available protection against a form of copying which the state of Florida and eleven other states have found to constitute unfair competition.

Legislation is pending in Congress which is concerned solely with direct copying of industrial designs. H.R. 1179 and S. 791, 100th Cong., 1st Sess. The proposed legislation would co-exist with patent protection. So far, however, Congress has

left the subject of direct copying of industrial designs unattended, and therefore the states are free to act to provide a remedy against direct copying that is not the equivalent of patent law remedies. *See Goldstein v. California*, 402 U.S. 546 (1973). If Congress enacts federal anti-copying legislation for industrial designs, it can decide whether that legislation should preempt direct molding laws in the states.

II. The Scope of Protection Against Copying Afforded by the Florida Statute Resembles the Scope of Protection Available Under State Trade Secret Law That Has Been Upheld by This Court.

This Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) upheld state trade secret protection. *Kewanee* helped clarify the scope of the preemption doctrine that was considered earlier in *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day Brite Lighting, Inc.*, 376 U.S. 234 (1964). *See also Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

Trade secret law protects against unauthorized acquisition, disclosure or use of confidential information. That is the scope of the Uniform Trade Secrets Act, for example, which was drafted by the National Conference of Commissioners on Uniform State Laws and is now adopted in 26 states. *See generally* Klitzke, *The Uniform Trade Secrets Act*, 64 Marq. L. Rev. 277 (1980).

Trade secret protection extends only to persons who utilize or disclose confidential information without authority. It does not extend to persons who reverse engineer or develop the information independently. Similarly the Florida direct molding statute covers copyists who have access to the hull of a vessel and copy it by using a direct molding process, but it does not cover innovators who design the same vessel hull independently. It does not even cover copyists who duplicate the hull by methods other than direct molding, such as by manually taking measurements of all dimensions of the original.

Trade secret law does not remove information from the public domain. Trade secrets may become available to the public if inadvertently disclosed by the owner or independently

developed by another party. Neither does the Florida statute keep a vessel hull out of the public domain.

Finally, trade secret law and the Florida statute resemble each other in providing protection without regard to whether the subject matter protected meets the criteria for obtaining a patent. Both trade secret law and the Florida statute are so different from patent law that patentability standards are irrelevant.

III. Copying of Boat Hulls by Direct Molding Processes is Similar to the Kind of Copying That was Outlawed by Congress in 1984 for Semiconductor Chips, and Congress Recognized the Right of States to Protect Against Chip Copying Until Congress Legislated on Chip Copying.

When Congress enacted the Semiconductor Chip Protection Act of 1984 ("Chip Act"), Pub. L. No. 98-620, Congress provided a remedy against a type of copying which is similar to copying by direct molding processes. A semiconductor chip can cost millions of dollars to design and develop, but once developed, it can be copied at a fraction of the original design and development cost. H.R. Rep. No. 781, 98th Cong., 2d Sess. 2 (1984). It is possible to photograph the layers of some semiconductor chips and reproduce copies almost as simply as one can photocopy sheets of paper. *See* S. Rep. No. 425, 98th Cong., 2d Sess. 4 (1984).

The Chip Act protects against copying of the layout of a chip by "optical, electronic, or any other means", 17 U.S.C. § 905, but permits "reverse engineering", 17 U.S.C. § 906. Reverse engineering is defined as analyzing or evaluating the concepts or techniques embodied in a protected chip and designing a chip layout based on that analysis or evaluation.

This scheme of protection for chips—prohibiting direct, low-cost copying while allowing reverse engineering—is analogous to the protection provided by the Florida statute for boats. Photographic reproduction of layers of a chip is analogous to copying of a boat hull by a direct molding process. Reverse engineering under the Chip Act is similar in concept to copying

of boat hulls by methods other than direct molding under the Florida statute, such as measuring the dimensions of the original hull and building a new original mold.

According to the interpretation given to the *Sears* and *Compco* preemption doctrine by the Supreme Court of Florida, states would have been unable to protect chips prior to Pub. L. No. 98-620. Chips would have been protectible only to the extent they could be patented.

The Chip Act makes clear, however, that that is not how Congress viewed the situation. Although Congress decided to preempt state laws "which are equivalent to those rights or remedies" provided in the Chip Act, it also decided preemption would be effective only with respect to actions filed on or after January 1, 1986. 17 U.S.C. § 912(c).

The federal patent laws, clearly, were considered by Congress *not* to have preempted state protection of chips. Congress acknowledged that the states possessed authority to protect against chip copying until Congress decided specifically to preempt protection. The states obviously have authority to protect against copying of boat hulls by direct molding processes at least until Congress provides equivalent rights or remedies to designers of boat hulls.

CONCLUSION

Intellectual Property Owners, Inc. urges the Court to reverse the decision of the Supreme Court of Florida holding FLA. STAT. § 559.94 (1985) unconstitutional.

Respectfully submitted,

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